

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                                |  |                   |
|--|--------------------------------|--|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                                | Local Unit Name<br>City of Keego Harbor                    | County<br>Oakland |
| Fiscal Year End<br>June 30, 2007   | Opinion Date<br>August 2, 2007 | Date Audit Report Submitted to State<br>September 14, 2007 |                   |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

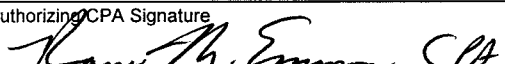
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |
|--|-------------------------------------|--|-------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |             |
| Financial Statements   | <input checked="" type="checkbox"/> |  |             |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |             |
| Other (Describe)   | <input type="checkbox"/>            |  |             |
| Certified Public Accountant (Firm Name)<br>Post, Smythe, Lutz and Ziel of Plymouth LLP                           |                                     | Telephone Number<br>248-644-9125           |             |
| Street Address<br>3707 W. Maple Road, Suite 101  |                                     | City<br>Bloomfield Hills                   | State<br>MI |
| Zip<br>48301   |                                     |  |             |
| Authorizing CPA Signature<br> | Printed Name<br>Rana M. Emmons, CPA | License Number<br>1101022716               |             |

**CITY OF KEEGO HARBOR  
Oakland County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended  
June 30, 2007**

CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2007

Table of Contents

INTRODUCTORY SECTION

Table of Contents

FINANCIAL SECTION

Page

|  |       |
|--|-------|
| Independent Auditor's Report .....   | 1-2   |
| Management's Discussion and Analysis .....   | 3-7   |
| Basic Financial Statements:  |       |
| Government Wide Financial Statements:  |       |
| Statement of Net Assets .....  | 8     |
| Statement of Activities .....  | 9     |
| Fund Financial Statements:   |       |
| Balance Sheet – Governmental Funds .....   | 10-11 |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balances – Governmental Funds.....   | 12-13 |
| Reconciliation of the Statement of Revenues, Expenditures, and<br>Changes in Fund Balances of Governmental Funds to the<br>Statement of Activities ..... | 14    |
| Fiduciary Fund – Statement of Assets and Liabilities .....   | 15    |
| Notes to Financial Statements .....  | 16-31 |
| Required Supplementary Information:  |       |
| Defined Benefit Pension Plans - Trend Information .....  | 32    |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balance - Budget and Actual – General Fund .....  | 33-34 |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balance - Budget and Actual – Major Street Fund .....   | 35    |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balance - Budget and Actual – TIFA Fund .....   | 36    |

CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2007

Table of Contents

| <u>FINANCIAL SECTION</u> – Continued   | <u>Page</u> |
|--|-------------|
| Other Supplementary Information:   |             |
| Combining Balance Sheet – Nonmajor Governmental Funds .....  | 37-38       |
| Combining Statement of Revenues, Expenditures and Changes in<br>Fund Balance – Nonmajor Governmental Funds ..... | 39-40       |

## FINANCIAL SECTION

# POST, SMYTHE, LUTZ and ZIEL LLP

*Certified Public Accountants*

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### Independent Auditor's Report

August 2, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants

## Management's Discussion and Analysis

### **Overview of the Financial Statements**

The City's annual report consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

The statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The statement of activities provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.



## Financial Position

The following table shows in a condensed format, the net assets of the City's governmental activities as of June 30, 2007:

### City of Keego Harbor - Net Assets

|   | Governmental Activities |              |
|---|-------------------------|--------------|
|   | 2007                    | 2006         |
| Current and other assets                        | \$ 4,300,348            | \$ 4,176,490 |
| Capital Assets                                  | 2,105,932               | 2,029,635    |
| Total Assets                                    | 6,406,280               | 6,206,125    |
| Long-term liabilities outstanding               | 3,735,775               | 3,769,802    |
| Other liabilities                               | 210,405                 | 203,090      |
| Total Liabilities                               | 3,946,180               | 3,972,892    |
| Net Assets:                                     |                         |              |
| Invested in capital assets, net of related debt | 578,697                 | 474,635      |
| Restricted                                      | 866,061                 | 929,137      |
| Unrestricted                                    | 1,015,342               | 792,244      |
| Total Net Assets                                | \$ 2,460,100            | \$ 2,196,016 |

The following table shows the changes of the net assets during the year ended June 30, 2007:

City of Keego Harbor - Change in Net Assets

|                                  | Governmental Activities |                   |
|----------------------------------|-------------------------|-------------------|
|                                  | 2007                    | 2006              |
| Revenues:                        |                         |                   |
| Program Revenues:                |                         |                   |
| Charges for Services             | \$ 390,987              | \$ 405,056        |
| Operating Grants & Contributions | 188,264                 | 183,829           |
| Capital Grants & Contributions   | -                       | 40,011            |
| General Revenues:                |                         |                   |
| Property Taxes                   | 1,587,472               | 1,447,328         |
| State Shared Revenues            | 246,732                 | 249,799           |
| Franchise Fees                   | 35,729                  | 30,740            |
| Unrestricted Investment Earnings | 235,889                 | 134,624           |
| Total Revenues                   | <u>2,685,073</u>        | <u>2,491,387</u>  |
| Expenses:                        |                         |                   |
| General Government               | 563,651                 | 479,145           |
| Public Safety                    | 1,063,727               | 1,131,194         |
| Public Works                     | 503,200                 | 564,559           |
| Community Development            | 18,450                  | 24,337            |
| Recreation and Cultural          | 79,920                  | 105,871           |
| Interest on Long-Term Debt       | 192,041                 | 85,308            |
| Total Expenses                   | <u>2,420,989</u>        | <u>2,390,414</u>  |
| Change in Net Assets             | <u>\$ 264,084</u>       | <u>\$ 100,973</u> |

The City had an increase of \$264,084 in net assets in its governmental activities for the fiscal year ended June 30, 2007, compared to a \$100,973 increase for the fiscal year ended June 30, 2006. Contributing to additional revenue is an increase in property tax revenue due to new construction & an increase in interest earnings due to timely investing. General government expenses also decreased.

## **Governmental Activities**

Over the last few years, the City has experienced steady growth in tax revenues accompanied by larger growth in expenses. History has taken a turn for the better: General Fund revenues exceeded expenditures in 2006/2007 by \$121,026, as compared to expenditures exceeding revenues in fiscal year 2005/2006 by \$8,558.

The fee schedules (charges for services) continue to be adjusted to better cover actual costs. In fiscal year 03/04, the City's budget lacked line item detail. Since 04/05, a more detailed history has been developed prospectively. State-shared revenues, statutorily designated to support local community services, have historically accounted for approximately 20 percent of the City's general operating revenues. State Shared Revenue has been consistently retained by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$6,995 less in State-shared revenues than in fiscal year 2006, a 2.7% decrease. State Shared revenue has decreased from \$323,993 in 2000 to \$247,590 in 2007, a decrease of \$76,403, a 24% decrease. With a concerted effort to maximize the City's investment earnings, the City managed to earn \$55,744 from its General Fund investments.

The City of Keego Harbor has a healthy General Fund cash surplus (\$471,083) sufficient to meet limited shortfalls in current year revenues or increases in current year expenditures. The 2006/2007 fiscal year ended with a 24% ratio of fund balance to expenditures.

## **Analysis of Individual Funds**

Of the City's governmental funds, the General, Major Streets, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with an increase to its fund balance in the amount of \$121,026.

## **Capital Assets**

During fiscal year 2007, capital asset purchases included four police vehicles.

## **Long-term Debt**

At the end of the current fiscal year, the City had total bond and Installment Purchase Loan debt outstanding of \$3,682,235. The City's total debt decreased by \$112,872 during the current fiscal year.

## **Economic Factors**

Keego Harbor is experiencing modest redevelopment in both residential and commercial sectors. Keego Harbor, like most seasoned cities, depends on growth in property values to offset growth in expenditures, rather than new construction. Property taxes account for 63% of General Fund revenues. The taxable value of real property increased 9.2 percent from fiscal 2006 to 2007.

A residential and commercial redevelopment friendly atmosphere will be essential to the City's long term fiscal viability. This does not mean that we have to abandon our standards, but it does mean that we have to be open to productive change. The City needs to find and maintain that delicate balance between protecting our long term residents and welcoming new construction.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2006-2007 fiscal year based on the best information known at the time. The City continues to experience significant increases in these costs.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax values and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels, unless the City experiences significant redevelopment of its downtown and aging housing stock.

The City has one potential project and one planned project that will have fiscal implications for the City. The City is planning the construction of a new City Hall/Police Department and the renovation and expansion of the Department of Public Works. Both of these projects have been in the planning stages for many years. The City hopes to complete the entire project in 2008 with funds the City has on hand in the form of borrowed funds. It is not anticipated that additional taxes will be needed for this project.

The potential project is road paving and drainage improvements. This issue will be before the voters in November to decide if the City should sell seven million, five hundred thousand (\$7,500,000.00) dollars of bonds to make these improvements. If the debt is approved by the voters, the City will issue bonds in three or more series consistent with the expenses of each phase of the construction. It is expected that the entire City will have new streets and drainage in three years.

## **Contacting the City's Financial Management**

This audit of the revenues and expenditures of the City is designed to depict the financial health of the City and demonstrate the uses of City resources. The audit also provides financial information to the City's investors and creditors.

If you have any questions about this report contact the City Manager, Mr. Dale A. Stuart or City Finance Director/Treasurer, Ms. Dorothy Silver at City Hall, P.O. Box 665, Keego Harbor, Michigan 48320-0665 or telephone number 248-682-1930.

## BASIC FINANCIAL STATEMENTS

**CITY OF KEEGO HARBOR**  
**Statement of Net Assets**  
**Governmental Activities**  
**June 30, 2007**

**ASSETS**

|  |                  |
|--|------------------|
| Cash and Cash Equivalents                          | \$ 3,201,314     |
| Restricted Assets - Cash                           | 860,673          |
| Receivables (net of allowance for uncollectibles): |                  |
| Taxes  | 28,786           |
| Due from Other Governmental Units                  | 63,993           |
| Prepaid Expenses                                   | 145,582          |
| Capital Assets (Net of Accumulated Depreciation):  |                  |
| Nondepreciable                                     | 745,901          |
| Depreciable  | 1,360,031        |
| Total Assets                                       | <u>6,406,280</u> |

**LIABILITIES**

|   |                  |
|---|------------------|
| Accounts Payable                                | 16,432           |
| Accrued Liabilities                             | 33,183           |
| Accrued Interest Payable                        | 27,407           |
| Deposits  | 104,597          |
| Deferred Revenue                                | 28,786           |
| Noncurrent Liabilities:                         |                  |
| Bonds Payable, due within one year              | 100,000          |
| Bonds Payable, due in more than one year        | 2,365,000        |
| Loans Payable, due within one year              | 17,890           |
| Loans Payable, due in more than one year        | 1,199,345        |
| Compensated Absences, due within one year       | 17,133           |
| Compensated Absences, due in more than one year | 36,407           |
| Total Liabilities                               | <u>3,946,180</u> |

**NET ASSETS**

|   |                     |
|---|---------------------|
| Invested in Capital Assets, net of related debt | 578,697             |
| Restricted for:                                 |                     |
| Streets and Highways                            | 785,385             |
| Debt Service                                    | 53,664              |
| Beautification                                  | 442                 |
| Police Department Community Events              | 14,697              |
| Police Department Drug Forfeiture               | 3,694               |
| Police Department Training                      | 2,889               |
| Carillon  | 1,863               |
| Veterans Memorial                               | 3,427               |
| Unrestricted                                    | 1,015,342           |
| Total Net Assets                                | <u>\$ 2,460,100</u> |

**CITY OF KEEGO HARBOR**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

| <u>Functions/Programs</u>            | <u>Program Revenues</u> |                                 |   |   | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</u> |
|--------------------------------------|-------------------------|---------------------------------|---|---|--|
|                                      | <u>Expenses</u>         | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |  |
| <b>Primary Government:</b>           |                         |                                 |   |   |  |
| Governmental Activities:             |                         |                                 |   |   |  |
| General Government                   | \$ 563,651              | \$ 160,383                      | \$ 879  | \$ -  | \$ (402,389)   |
| Public Safety                        | 1,063,727               | 163,925                         | 21,143  | -   | (878,659)  |
| Public Works                         | 503,200                 | 59,279                          | 150,122   | -   | (293,799)  |
| Community Development                | 18,450                  | 6,152                           | 10,577  | -   | (1,721)  |
| Recreation and Cultural              | 79,920                  | 1,248                           | 5,543   | -   | (73,129)   |
| Interest on Long-Term Debt           | 192,041                 | -                               | -   | -   | (192,041)  |
| Total Governmental Activities        | <u>\$ 2,420,989</u>     | <u>\$ 390,987</u>               | <u>\$ 188,264</u>                                 | <u>\$ -</u>                                     | <u>(1,841,738)</u>   |
| General Revenues:                    |                         |                                 |   |   |  |
| Property Taxes                       |                         |                                 |   |   | 1,587,472  |
| State Shared Revenue                 |                         |                                 |   |   | 246,732  |
| Franchise Fees                       |                         |                                 |   |   | 35,729   |
| Unrestricted Investment Earnings     |                         |                                 |   |   | 235,889  |
| Total General Revenues and Transfers |                         |                                 |   |   | <u>2,105,822</u>   |
| Change in Net Assets                 |                         |                                 |   |   | 264,084  |
| Net Assets - Beginning               |                         |                                 |   |   | <u>2,196,016</u>   |
| Net Assets - Ending                  |                         |                                 |   |   | <u>\$ 2,460,100</u>  |

**CITY OF KEEGO HARBOR****Balance Sheet****Governmental Funds****June 30, 2007**

|   | <b>General<br/>Fund</b> | <b>Major<br/>Streets<br/>Fund</b> | <b>TIFA<br/>Fund</b> |
|---|-------------------------|-----------------------------------|----------------------|
| <b><u>ASSETS</u></b>                                  |                         |                                   |                      |
| Cash and Cash Equivalents                             | \$ 471,083              | \$ 674,312                        | \$ 482,830           |
| Restricted Assets - Cash                              | -                       | -                                 | -                    |
| Receivables (net of allowance<br>for uncollectibles): |                         |                                   |                      |
| Taxes   | 28,786                  | -                                 | -                    |
| Due from Other Funds                                  | 2,357                   | -                                 | -                    |
| Due from Other Units                                  | 40,425                  | 16,427                            | -                    |
| Prepaid Expenditures                                  | 119,841                 | -                                 | 1,106                |
| Total Assets  | <u>\$ 662,492</u>       | <u>\$ 690,739</u>                 | <u>\$ 483,936</u>    |
| <b><u>LIABILITIES AND FUND BALANCE</u></b>            |                         |                                   |                      |
| Liabilities:  |                         |                                   |                      |
| Accounts Payable                                      | \$ 16,378               | \$ 13                             | \$ -                 |
| Accrued and Other Liabilities                         | 32,791                  | 65                                | -                    |
| Due to Other Funds                                    | -                       | 5,750                             | -                    |
| Deposits  | 104,597                 | -                                 | -                    |
| Deferred Revenue                                      | 28,786                  | -                                 | -                    |
| Total Liabilities                                     | <u>182,552</u>          | <u>5,828</u>                      | <u>-</u>             |
| Fund Balances:  |                         |                                   |                      |
| Reserved for:   |                         |                                   |                      |
| Prepaid Expenditures                                  | 119,841                 | -                                 | 1,106                |
| Veterans Memorial                                     | 3,427                   | -                                 | -                    |
| Police Drug Forfeiture                                | 3,694                   | -                                 | -                    |
| Police Training                                       | 2,889                   | -                                 | -                    |
| Debt Service  | -                       | -                                 | -                    |
| Construction  | -                       | -                                 | -                    |
| Unreserved for:                                       |                         |                                   |                      |
| General Fund  | 350,089                 | -                                 | -                    |
| Special Revenue Funds                                 | -                       | 684,911                           | 482,830              |
| Capital Project Funds                                 | -                       | -                                 | -                    |
| Total Fund Balances                                   | <u>479,940</u>          | <u>684,911</u>                    | <u>483,936</u>       |
| Total Liabilities and Fund Balances                   | <u>\$ 662,492</u>       | <u>\$ 690,739</u>                 | <u>\$ 483,936</u>    |

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital Assets used in governmental activities are not financial resources and,  
therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Net Assets of Governmental Activities



| TIFA City<br>Hall/Police<br>Construction<br>Fund | City Hall/<br>Police<br>Construction<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--|--------------------------------|--------------------------------|
| \$ -   | \$ 1,218,991                                 | \$ 354,098                     | \$ 3,201,314                   |
| 860,673  | -  | -                              | 860,673                        |
| -  | -  | -                              | 28,786                         |
| -  | -  | 3,393                          | 5,750                          |
| -  | -  | 7,141                          | 63,993                         |
| -  | -  | 24,635                         | 145,582                        |
| <u>\$ 860,673</u>                                | <u>\$ 1,218,991</u>                          | <u>\$ 389,267</u>              | <u>\$ 4,306,098</u>            |

|          |          |            |                |
|----------|----------|------------|----------------|
| \$ -     | \$ -     | \$ 41      | \$ 16,432      |
| -        | -        | 327        | 33,183         |
| -        | -        | -          | 5,750          |
| -        | -        | -          | 104,597        |
| -        | -        | -          | 28,786         |
| <u>-</u> | <u>-</u> | <u>368</u> | <u>188,748</u> |

|                   |                     |                   |                  |
|-------------------|---------------------|-------------------|------------------|
| -                 | -                   | 24,635            | 145,582          |
| -                 | -                   | -                 | 3,427            |
| -                 | -                   | -                 | 3,694            |
| -                 | -                   | -                 | 2,889            |
| -                 | -                   | 53,664            | 53,664           |
| 860,673           | 1,218,991           | -                 | 2,079,664        |
| -                 | -                   | -                 | 350,089          |
| -                 | -                   | 117,476           | 1,285,217        |
| -                 | -                   | 193,124           | 193,124          |
| <u>860,673</u>    | <u>1,218,991</u>    | <u>388,899</u>    | <u>4,117,350</u> |
| <u>\$ 860,673</u> | <u>\$ 1,218,991</u> | <u>\$ 389,267</u> |                  |

2,105,932

(3,763,182)

\$ 2,460,100

**CITY OF KEEGO HARBOR**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

|  | <u>General</u>    | <u>Major<br/>Streets<br/>Fund</u> | <u>TIFA<br/>Fund</u> |
|--|-------------------|-----------------------------------|----------------------|
| <b><u>Revenues</u></b>                               |                   |                                   |                      |
| Property Taxes                                       | \$ 1,416,442      | \$ -                              | \$ 123,418           |
| Licenses and Permits                                 | 9,140             | -                                 | -                    |
| Intergovernmental:                                   |                   |                                   |                      |
| Federal, State and Local                             | 258,198           | 100,041                           | -                    |
| Charges for Services                                 | 273,188           | -                                 | -                    |
| Fines and Forfeitures                                | 63,296            | -                                 | -                    |
| Franchise Fees                                       | 35,729            | -                                 | -                    |
| Interest   | 55,744            | 27,280                            | 21,034               |
| Other  | 20,344            | 5,712                             | -                    |
| Total Revenues                                       | <u>2,132,081</u>  | <u>133,033</u>                    | <u>144,452</u>       |
| <b><u>Expenditures</u></b>                           |                   |                                   |                      |
| Current:   |                   |                                   |                      |
| General Government                                   | 506,148           | -                                 | -                    |
| Public Safety  | 1,046,793         | -                                 | -                    |
| Community Development                                | 18,450            | -                                 | -                    |
| Public Works   | 289,259           | 52,185                            | 4,460                |
| Recreation and Cultural                              | 75,340            | -                                 | -                    |
| Other  | 12,022            | -                                 | -                    |
| Debt Service:  |                   |                                   |                      |
| Principal  | -                 | -                                 | -                    |
| Interest and Other Charges                           | 56,451            | -                                 | 19,516               |
| Capital Outlay                                       | 5,992             | -                                 | -                    |
| Total Expenditures                                   | <u>2,010,455</u>  | <u>52,185</u>                     | <u>23,976</u>        |
| Excess (Deficiency) of Revenues<br>Over Expenditures | <u>121,626</u>    | <u>80,848</u>                     | <u>120,476</u>       |
| <b><u>Other Financing Sources (Uses)</u></b>         |                   |                                   |                      |
| Transfers In   | -                 | -                                 | -                    |
| Transfers Out  | (600)             | (25,010)                          | (55,885)             |
| Loan Proceeds  | -                 | -                                 | -                    |
| Total Other Financing Sources and Uses               | <u>(600)</u>      | <u>(25,010)</u>                   | <u>(55,885)</u>      |
| Net Change in Fund Balances                          | 121,026           | 55,838                            | 64,591               |
| Fund Balances - Beginning                            | <u>358,914</u>    | <u>629,073</u>                    | <u>419,345</u>       |
| Fund Balances - Ending                               | <u>\$ 479,940</u> | <u>\$ 684,911</u>                 | <u>\$ 483,936</u>    |

| TIFA City<br>Hall/Police<br>Construction<br>Fund | City Hall/<br>Police<br>Construction<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--|--------------------------------|--------------------------------|
| \$ -   | \$ -   | \$ 47,612                      | \$ 1,587,472                   |
| -  | -  | -                              | 9,140                          |
| -  | -  | 50,081                         | 408,320                        |
| -  | -  | -                              | 273,188                        |
| -  | -  | -                              | 63,296                         |
| -  | -  | -                              | 35,729                         |
| 46,818   | 67,678                                       | 17,335                         | 235,889                        |
| -  | -  | 45,983                         | 72,039                         |
| <u>46,818</u>                                    | <u>67,678</u>                                | <u>161,011</u>                 | <u>2,685,073</u>               |
| -  | -  | 37,483                         | 543,631                        |
| -  | -  | -                              | 1,046,793                      |
| -  | -  | -                              | 18,450                         |
| -  | -  | 102,018                        | 447,922                        |
| -  | -  | -                              | 75,340                         |
| -  | -  | 6,234                          | 18,256                         |
| -  | -  | 106,610                        | 106,610                        |
| -  | -  | 120,851                        | 196,818                        |
| 15,390   | 10,088                                       | 129,646                        | 161,116                        |
| <u>15,390</u>                                    | <u>10,088</u>                                | <u>502,842</u>                 | <u>2,614,936</u>               |
| <u>31,428</u>                                    | <u>57,590</u>                                | <u>(341,831)</u>               | <u>70,137</u>                  |
| -  | -  | 81,495                         | 81,495                         |
| -  | -  | -                              | (81,495)                       |
| -  | -  | 78,845                         | 78,845                         |
| <u>-</u>   | <u>-</u>                                     | <u>160,340</u>                 | <u>78,845</u>                  |
| 31,428   | 57,590                                       | (181,491)                      | 148,982                        |
| <u>829,245</u>                                   | <u>1,161,401</u>                             | <u>570,390</u>                 | <u>3,968,368</u>               |
| <u>\$ 860,673</u>                                | <u>\$ 1,218,991</u>                          | <u>\$ 388,899</u>              | <u>\$ 4,117,350</u>            |

**CITY OF KEEGO HARBOR**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Amounts reported for governmental activities in the statement of activities are different because:

|  |            |
|--|------------|
| Net change in fund balances - total governmental funds | \$ 148,982 |
|--|------------|

|  |        |
|--|--------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period. | 76,297 |
|--|--------|

|  |               |
|--|---------------|
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | <u>38,805</u> |
|--|---------------|

|   |                          |
|---|--------------------------|
| Change in net assets in governmental activities | \$ <u><u>264,084</u></u> |
|---|--------------------------|

CITY OF KEEGO HARBOR  
Fiduciary Fund  
Statement of Assets and Liabilities  
June 30, 2007

|                           |                                  |
|---------------------------|----------------------------------|
|                           | Tax Collection<br>Agency<br>Fund |
|                           | <hr/>                            |
| <b><u>ASSETS</u></b>      |                                  |
| Cash                      | \$ 11,045                        |
|                           | <hr/>                            |
| <b><u>LIABILITIES</u></b> |                                  |
| Due to Other              | \$ 11,045                        |
|                           | <hr/>                            |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$214,160 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* shown on the government-wide financial statements are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a special revenue fund used to account for the repair, maintenance, and construction of the City's major streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund, and debt related to these projects and the new city hall/police facility construction. The activity is approved by the TIFA Board.

The TIFA City Hall/Police Construction Fund accounts for construction activity funded by the 2006 General Obligation Capital Improvement Bonds.

The City Hall/Police Construction Fund accounts for construction activity of the new city hall/police department building which is funded by an installment purchase loan issued during fiscal year 2006.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Capital Project Funds are used to account for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

Agency Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, and when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

3. Restricted Assets

The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted.

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u>                        | <u>Years</u> |
|--------------------------------------|--------------|
| Buildings and Improvements           | 25-40        |
| Furnishings, Fixtures, and Equipment | 10-40        |
| Vehicles                             | 10-20        |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$3,763,182 difference are as follows:

|                                  |                     |
|----------------------------------|---------------------|
| General Obligation Bonds Payable | \$ 2,465,000        |
| Installment Loan Payable         | 1,217,235           |
| Accrued Interest Payable         | 27,407              |
| Compensated Absences Payable     | <u>53,540</u>       |
|                                  | <u>\$ 3,763,182</u> |

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$76,297 difference are as follows:

|                      |                  |
|----------------------|------------------|
| Capital Outlay       | \$ 161,116       |
| Asset Disposals      | (1,539)          |
| Depreciation Expense | <u>(83,280)</u>  |
|                      | <u>\$ 76,297</u> |

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$38,805 difference are as follows:

|                          |                  |
|--------------------------|------------------|
| Principal Paid on Debt   | \$ 106,610       |
| Accrued Interest Payable | 4,778            |
| Compensated Absences     | 6,262            |
| Issuance of New Debt     | <u>(78,845)</u>  |
|                          | <u>\$ 38,805</u> |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and the Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2007, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2007.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund and Special Revenue Funds are adopted at the activity level. The City's expenditures did not exceed the final budgeted appropriations at June 30, 2007.

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2007 are as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Cumulative Shortfall at June 30, 2006 | \$ <u>(181,823)</u> |
| Fees Collected in Fiscal Year 2007    | 82,208              |
| Expenditures in Fiscal Year 2007      | <u>(134,176)</u>    |
| Revenues Over (Under) Expenditures    | <u>(51,968)</u>     |
| Cumulative Shortfall at June 30, 2007 | \$ <u>(233,791)</u> |

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2007, the City's book balance of its deposits was \$4,172,682; the total book balance was \$4,173,032, due to \$350 in cash on hand. The bank balance was \$4,245,808 which was exposed to custodial credit risk, as follows:

|                                | <u>Bank<br/>Balance</u> |
|--------------------------------|-------------------------|
| Insured by F.D.I.C.            | \$ 570,000              |
| Uninsured and Uncollateralized | <u>3,675,808</u>        |
| Total                          | <u>\$4,245,808</u>      |

A reconciliation of cash as it appears on the financial statements follows:

|  |                    |
|--|--------------------|
| Cash and Cash Equivalents per:                       |                    |
| Statement of Net Assets                              | \$3,301,314        |
| Restricted Assets-Statement of Net Assets            | 860,673            |
| Fiduciary Fund – Statement of Assets and Liabilities | <u>11,045</u>      |
| Total  | <u>\$4,173,032</u> |

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

| <u>Deposits and Investments</u>             | <u>Fair Value</u>  | <u>Weighted Average<br/>Maturity</u> |
|---|--------------------|--------------------------------------|
| Savings and Checking Accounts               | \$ 70,000          | Demand                               |
| Pooled Investments (Share price=\$1)        | 2,827,652          | Demand                               |
| Certificates of Deposits-Less than one year | <u>1,348,156</u>   | 160 Days                             |
|   | <u>\$4,245,808</u> |                                      |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City has no more than 5 percent of its investments in any one financial institution.

B. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

| <u>Governmental Activities:</u>                | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Deletions</u>  | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------------|
| Capital Assets, not depreciated:               |                              |                  |                   |                           |
| Land   | \$ 745,901                   | \$ -             | \$ -              | \$ 745,901                |
| Capital Assets, being depreciated:             |                              |                  |                   |                           |
| Infrastructure                                 | 950,277                      | -                | -                 | 950,277                   |
| Building and Improvements                      | 263,934                      | 25,478           | -                 | 289,412                   |
| Furnishings, Fixtures, and Equipment           | 172,823                      | 50,458           | (1,539)           | 221,742                   |
| Vehicles                                       | 181,866                      | 85,180           | -                 | 267,046                   |
|  | <u>1,568,900</u>             | <u>161,116</u>   | <u>(1,539)</u>    | <u>1,728,477</u>          |
| Less: Accumulated Depreciation:                |                              |                  |                   |                           |
| Infrastructure                                 | (21,363)                     | (23,757)         | -                 | (45,120)                  |
| Building and Improvements                      | (61,736)                     | (6,760)          | -                 | (68,496)                  |
| Furnishings, Fixtures, and Equipment           | (91,996)                     | (23,260)         | -                 | (115,256)                 |
| Vehicles                                       | (110,071)                    | (29,503)         | -                 | (139,574)                 |
|  | <u>(285,166)</u>             | <u>(83,280)</u>  | <u>-</u>          | <u>(368,446)</u>          |
| Governmental Activities<br>Capital Assets, net | \$ <u>2,029,635</u>          | \$ <u>77,836</u> | \$ <u>(1,539)</u> | \$ <u>2,105,932</u>       |

Depreciation expense was charged on the Statement of Activities as follows:

|                         |                  |
|-------------------------|------------------|
| General Government      | \$ 8,026         |
| Public Safety           | 15,396           |
| Public Works            | 55,278           |
| Recreation and Cultural | 4,580            |
|                         | <u>\$ 83,280</u> |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2007, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u>   |
|------------------------|---------------------|-----------------|
| General Fund           | Major Street Fund   | \$ 2,357        |
| Local Street Fund      | Major Street Fund   | 3,393           |
|                        |                     | <u>\$ 5,750</u> |

Interfund balances represent miscellaneous amounts not transferred before year end.

2. Interfund Transfers

| <u>Transfers Out:</u> | <u>Transfers In:</u>       | <u>Total</u>     |
|-----------------------|----------------------------|------------------|
| General Fund          | Beautification Fund        | \$ 600           |
| Major Streets Fund    | Local Streets Fund         | 25,010           |
| TIFA Fund             | TIFA Debt Service Fund     | 32,909           |
| TIFA Fund             | TIFA City Hall/Police Debt | <u>22,976</u>    |
|                       |                            | <u>\$ 81,495</u> |

Transfers to the Beautification Fund from the General Fund was to fund current year expenditures.

Transfer to the Local Streets Fund from the Major Streets Fund is to fund current year local street projects.

Transfers to the Debt Service Funds are funding for semi-annual debt payments.



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2007:

|                                    | <u>Interest<br/>Rates</u> | <u>Balance<br/>July 1,<br/>2006</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>June 30,<br/>2007</u> | <u>Due<br/>Within<br/>One Year</u> |
|------------------------------------|---------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|------------------------------------|
| Governmental Activities:           |                           |                                     |                  |                   |                                      |                                    |
| General Obligation Bonds:          |                           |                                     |                  |                   |                                      |                                    |
| Tri-City Fire Station Bonds        |                           |                                     |                  |                   |                                      |                                    |
| Issue Amount: \$460,000            |                           |                                     |                  |                   |                                      |                                    |
| Maturing through 2009              | 5.25%                     | \$ 190,000                          | \$ -             | \$ 40,000         | \$ 150,000                           | \$ 45,000                          |
| Capital Improvement Bonds          |                           |                                     |                  |                   |                                      |                                    |
| Issue Amount: \$1,400,000          |                           |                                     |                  |                   |                                      |                                    |
| Maturing through 2022              | 3.50-4.60%                | 1,365,000                           | -                | 45,000            | 1,320,000                            | 55,000                             |
| Tax Development Bonds              |                           |                                     |                  |                   |                                      |                                    |
| Issue Amount: \$995,000            |                           |                                     |                  |                   |                                      |                                    |
| Maturing through 2026              | 4.50-4.80%                | <u>995,000</u>                      | <u>-</u>         | <u>-</u>          | <u>995,000</u>                       | <u>-</u>                           |
| Total General Obligation Bonds     |                           | <u>2,550,000</u>                    | <u>-</u>         | <u>85,000</u>     | <u>2,465,000</u>                     | <u>100,000</u>                     |
| Installment Purchase Loan          |                           |                                     |                  |                   |                                      |                                    |
| Issue Amount: \$1,160,000          |                           |                                     |                  |                   |                                      |                                    |
| Maturing through 2020              | 4.31%                     | 1,160,000                           | -                | -                 | 1,160,000                            | -                                  |
| Installment Purchase Loan-Vehicles |                           |                                     |                  |                   |                                      |                                    |
| Issue Amount: \$78,845             |                           |                                     |                  |                   |                                      |                                    |
| Maturing through 2010              | 6.50%                     | -                                   | 78,845           | 21,610            | 57,235                               | 17,890                             |
| Compensated Absences               |                           | <u>59,802</u>                       | <u>-</u>         | <u>6,262</u>      | <u>53,540</u>                        | <u>17,133</u>                      |
|                                    |                           | <u>\$ 3,769,802</u>                 | <u>\$ 78,845</u> | <u>\$ 112,872</u> | <u>\$ 3,735,775</u>                  | <u>\$ 135,023</u>                  |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2007 are as follows:

| <u>Year Ended</u> | <u>Governmental Activities</u> |                     |
|-------------------|--------------------------------|---------------------|
|                   | <u>Principal</u>               | <u>Interest</u>     |
| 2008              | \$ 117,890                     | \$ 167,168          |
| 2009              | 166,132                        | 160,884             |
| 2010              | 221,342                        | 153,380             |
| 2011              | 187,332                        | 142,482             |
| 2012              | 200,782                        | 133,413             |
| 2013-2017         | 1,175,966                      | 528,784             |
| 2018-2022         | 1,277,791                      | 257,099             |
| 2023-2026         | 335,000                        | 46,843              |
|                   | <u>\$ 3,682,235</u>            | <u>\$ 1,590,053</u> |

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2007, is presented below:

|   | <u>General<br/>Fund</u> | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Project</u> |
|---|-------------------------|----------------------------|-------------------------|----------------------------|
| Reserved for:                                   |                         |                            |                         |                            |
| Prepaid Expenditures                            | \$ 119,841              | \$ 1,106                   | \$ -                    | \$ 24,635                  |
| Veterans Memorial                               | 3,427                   | -                          | -                       | -                          |
| Police Drug Forfeiture                          | 3,694                   | -                          | -                       | -                          |
| Police Training                                 | 2,889                   | -                          | -                       | -                          |
| Debt Service                                    | -                       | -                          | 53,664                  | -                          |
| Construction                                    | -                       | -                          | -                       | 2,079,664                  |
| Total Reserved                                  | <u>129,851</u>          | <u>1,106</u>               | <u>53,664</u>           | <u>2,104,299</u>           |
| Unreserved:                                     |                         |                            |                         |                            |
| Designated for Subsequent<br>Years Expenditures | -                       | 91,200                     | -                       | 60,380                     |
| Designated for Insurance<br>Deductible          | 10,000                  | -                          | -                       | -                          |
| Designated for Emergency<br>Reserve             | 1,000                   | -                          | -                       | -                          |
| Undesignated                                    | <u>339,089</u>          | <u>1,194,017</u>           | <u>-</u>                | <u>132,744</u>             |
| Total Fund Balance                              | <u>\$ 479,940</u>       | <u>\$ 1,286,323</u>        | <u>\$ 53,664</u>        | <u>\$ 2,297,423</u>        |

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2006 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

|                   |                      |
|-------------------|----------------------|
| General Operating | 12.5331              |
| Publicity         | .4659                |
| Debt - Voted      | <u>.4833</u>         |
| Total             | <u>13.4823</u> mills |

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2004 as follows:

|               |        |
|---------------|--------|
| General       | 19.54% |
| Police - Fire | 15.24% |

c. Annual Pension Cost

During the fiscal year ended June 30, 2007, the City's contributions totaling \$121,858 and employees' contributions totaling \$20,108 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

| <u>Three-Year Trend Information</u>                   |   |  |  |   |
|---|---|--|--|---|
| <u>Fiscal Year</u><br><u>Ended</u><br><u>June 30,</u> | <u>Valuation</u><br><u>Date</u><br><u>Dec. 31</u> | <u>Annual</u><br><u>Pension</u><br><u>Cost (APC)</u> | <u>Percentage</u><br><u>of APC</u><br><u>Contributed</u> | <u>Net</u><br><u>Pension</u><br><u>Obligation</u> |
| 2005  | 2002  | 96,472   | 100%   | -0-   |
| 2006  | 2003  | 100,233  | 100%   | -0-   |
| 2007  | 2004  | 121,858  | 100%   | -0-   |

The information presented above was determined as part of the actuarial valuations at the dates indicated.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2007

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. Currently 2 retirees are covered by this plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total expenditures were \$10,581 for the year ended June 30, 2007.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2007

Municipal Employees Retirement System  
Schedule of Funding Progress

| <u>Actuarial</u><br><u>Valuation</u><br><u>Date</u> | <u>Actuarial</u><br><u>Value of</u><br><u>Assets</u> | <u>Actuarial</u><br><u>Accrued</u><br><u>Liability (AAL)</u> | <u>Unfunded</u><br><u>AAL</u><br><u>(UAAL)</u> | <u>Funded</u><br><u>Ratio</u> | <u>Covered</u><br><u>Payroll</u> | <u>UAAL as a</u><br><u>Percent of</u><br><u>Covered Payroll</u> |
|---|--|--|--|-------------------------------|----------------------------------|---|
| 12/31/01  | \$1,261,021  | \$1,472,387  | \$211,366                                      | 86%                           | \$528,156                        | 40%   |
| 12/31/02  | 1,278,011  | 1,550,351  | 272,340  | 82                            | 555,463                          | 49  |
| 12/31/03  | 1,390,051  | 2,027,587  | 637,536  | 69                            | 567,030                          | 112   |
| 12/31/04  | 1,529,043  | 2,266,651  | 737,608  | 67                            | 582,755                          | 127   |
| 12/31/05  | 1,723,202  | 2,475,745  | 752,543  | 70                            | 574,952                          | 131   |
| 12/31/06  | 1,904,384  | 2,693,210  | 788,826  | 71                            | 678,492                          | 116   |

Additional information as of December 31, 2006, the latest actual valuation, follows:

|                               |                        |
|-------------------------------|------------------------|
| Actuarial cost method         | Entry age normal cost  |
| Amortization method           | Level percent          |
| Remaining amortization period | 30 years               |
| Asset valuation method        | 5-year smoothed market |
| Actuarial assumptions:        |                        |
| Investment rate of return     | 8%                     |
| Projected salary increases    | 4.50% - 12.90%         |
| Includes inflation at 4.5%    |                        |
| Cost of living adjustments    | None                   |

**City of Keego Harbor**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2007**

|                                  | <b>Budgeted Amounts</b> |                  |                  | <b>Variance with</b> |
|----------------------------------|-------------------------|------------------|------------------|----------------------|
|                                  | <b>Original</b>         | <b>Final</b>     | <b>Actual</b>    | <b>Final Budget</b>  |
| Revenues:                        |                         |                  |                  |                      |
| Property Taxes                   | \$ 1,434,930            | \$ 1,414,779     | \$ 1,416,442     | \$ 1,663             |
| Licenses and Permits             | 8,045                   | 9,167            | 9,140            | (27)                 |
| Intergovernmental - Federal/CDBG | 4,000                   | 14,449           | 10,403           | (4,046)              |
| Intergovernmental - State        | 250,770                 | 246,139          | 247,590          | 1,451                |
| Intergovernmental - County       | 300                     | 250              | 205              | (45)                 |
| Charges for Services             | 295,045                 | 303,992          | 273,188          | (30,804)             |
| Fines and Forfeitures            | 35,000                  | 63,296           | 63,296           | -                    |
| Franchise Fees                   | 32,000                  | 35,729           | 35,729           | -                    |
| Interest                         | 31,000                  | 55,740           | 55,744           | 4                    |
| Other                            | 5,500                   | 21,215           | 20,344           | (871)                |
| Total Revenues                   | <u>2,096,590</u>        | <u>2,164,756</u> | <u>2,132,081</u> | <u>(32,675)</u>      |
| Expenditures:                    |                         |                  |                  |                      |
| General Government:              |                         |                  |                  |                      |
| City Council                     | 9,285                   | 15,260           | 14,895           | 365                  |
| City Manager                     | 124,650                 | 99,325           | 90,410           | 8,915                |
| Elections                        | 2,830                   | 3,625            | 2,768            | 857                  |
| Assessing                        | 22,400                  | 23,045           | 23,044           | 1                    |
| Clerk                            | 79,570                  | 117,660          | 115,959          | 1,701                |
| Information Technology           | 6,475                   | 10,890           | 8,732            | 2,158                |
| Board of Review                  | 350                     | 455              | 449              | 6                    |
| Finance/Treasurer                | 131,405                 | 141,275          | 137,043          | 4,232                |
| Legal                            | 60,200                  | 63,050           | 62,954           | 96                   |
| Audit                            | 14,250                  | 14,250           | 13,750           | 500                  |
| Building and Grounds             | 43,560                  | 38,173           | 36,144           | 2,029                |
| Total General Government         | <u>494,975</u>          | <u>527,008</u>   | <u>506,148</u>   | <u>20,860</u>        |
| Public Safety:                   |                         |                  |                  |                      |
| Police                           | 674,670                 | 700,203          | 698,457          | 1,746                |
| Fire                             | 214,160                 | 214,160          | 214,160          | -                    |
| Inspection Services              | 242,655                 | 151,774          | 134,176          | 17,598               |
| Total Public Safety              | <u>1,131,485</u>        | <u>1,066,137</u> | <u>1,046,793</u> | <u>19,344</u>        |
| Community Development:           |                         |                  |                  |                      |
| CDBG                             | 4,000                   | 8,457            | 4,438            | 4,019                |
| CDBG-Capital Outlay              | -                       | 5,992            | 5,992            | -                    |
| Main Street                      | 2,000                   | 195              | 195              | -                    |
| Planning                         | 10,805                  | 15,345           | 12,958           | 2,387                |
| Zoning                           | 5,600                   | 2,600            | 859              | 1,741                |
| Total Community Development      | <u>22,405</u>           | <u>32,589</u>    | <u>24,442</u>    | <u>8,147</u>         |
| Public Works:                    |                         |                  |                  |                      |
| Department of Public Works       | 278,295                 | 266,386          | 247,435          | 18,951               |
| Street Lighting                  | 38,000                  | 44,000           | 41,824           | 2,176                |
| Total Public Works               | <u>316,295</u>          | <u>310,386</u>   | <u>289,259</u>   | <u>21,127</u>        |

(Continued)



**City of Keego Harbor**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2007**

|  | <b><u>Budgeted Amounts</u></b> |                     | <b><u>Actual</u></b> | <b><u>Variance with</u></b> |
|--|--------------------------------|---------------------|----------------------|-----------------------------|
|  | <b><u>Original</u></b>         | <b><u>Final</u></b> |                      | <b><u>Final Budget</u></b>  |
| Recreation and Cultural:                             |                                |                     |                      |                             |
| Parks  | \$ 26,760                      | \$ 44,240           | \$ 38,596            | \$ 5,644                    |
| Recreation   | 1,950                          | 7,770               | 5,249                | 2,521                       |
| Library  | 31,550                         | 31,495              | 31,495               | -                           |
| Total Recreation and Cultural                        | <u>60,260</u>                  | <u>83,505</u>       | <u>75,340</u>        | <u>8,165</u>                |
| Other Functions:                                     |                                |                     |                      |                             |
| Retiree Health Insurance                             | 11,150                         | 12,195              | 12,022               | 173                         |
| Tax Tribunals  | 500                            | 500                 | -                    | 500                         |
| Contingencies  | 2,470                          | 2,470               | -                    | 2,470                       |
| Total Other Functions                                | <u>14,120</u>                  | <u>15,165</u>       | <u>12,022</u>        | <u>3,143</u>                |
| Debt Service:  |                                |                     |                      |                             |
| Interest and Fees                                    | <u>-</u>                       | <u>56,451</u>       | <u>56,451</u>        | <u>-</u>                    |
| Total Expenditures                                   | <u>2,039,540</u>               | <u>2,091,241</u>    | <u>2,010,455</u>     | <u>80,786</u>               |
| Excess (Deficiency) of<br>Revenues Over Expenditures | 57,050                         | 73,515              | 121,626              | 48,111                      |
| Other Financing Uses:                                |                                |                     |                      |                             |
| Operating Transfers Out                              | <u>(57,050)</u>                | <u>(600)</u>        | <u>(600)</u>         | <u>-</u>                    |
| Net Change in Fund Balance                           | -                              | 72,915              | 121,026              | 48,111                      |
| Fund Balance - July 1                                | <u>358,914</u>                 | <u>358,914</u>      | <u>358,914</u>       | <u>-</u>                    |
| Fund Balance - June 30                               | <u>\$ 358,914</u>              | <u>\$ 431,829</u>   | <u>\$ 479,940</u>    | <u>\$ 48,111</u>            |

City of Keego Harbor  
Major Streets Special Revenue Fund  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2007

|  | <u>Budgeted Amounts</u> |                   |                   | <u>Variance with</u> |
|--|-------------------------|-------------------|-------------------|----------------------|
|  | <u>Original</u>         | <u>Final</u>      | <u>Actual</u>     | <u>Final Budget</u>  |
| Revenues:  |                         |                   |                   |                      |
| State  | \$ 85,875               | \$ 97,080         | \$ 100,041        | \$ 2,961             |
| Interest   | 14,000                  | 28,300            | 27,280            | (1,020)              |
| Other  | 600                     | 5,713             | 5,712             | (1)                  |
| Total Revenues                                       | <u>100,475</u>          | <u>131,093</u>    | <u>133,033</u>    | <u>1,940</u>         |
| Expenditures:  |                         |                   |                   |                      |
| Highways and Streets:                                |                         |                   |                   |                      |
| General Administration                               | 8,600                   | 9,708             | 10,004            | (296)                |
| Routine Maintenance                                  | 10,790                  | 39,564            | 30,441            | 9,123                |
| Traffic Services                                     | 2,000                   | 2,500             | 2,467             | 33                   |
| Winter Maintenance                                   | 13,095                  | 10,461            | 9,023             | 1,438                |
| Other  | 44,515                  | 21,071            | 250               | 20,821               |
| Total Expenditures                                   | <u>79,000</u>           | <u>83,304</u>     | <u>52,185</u>     | <u>31,119</u>        |
| Excess (Deficiency) of<br>Revenues Over Expenditures | 21,475                  | 47,789            | 80,848            | 33,059               |
| Other Financing Uses:                                |                         |                   |                   |                      |
| Operating Transfers Out                              | <u>(21,475)</u>         | <u>(24,270)</u>   | <u>(25,010)</u>   | <u>(740)</u>         |
| Net Change in Fund Balance                           | -                       | 23,519            | 55,838            | 32,319               |
| Fund Balance - July 1                                | <u>629,073</u>          | <u>629,073</u>    | <u>629,073</u>    | <u>-</u>             |
| Fund Balance - June 30                               | <u>\$ 629,073</u>       | <u>\$ 652,592</u> | <u>\$ 684,911</u> | <u>\$ 32,319</u>     |

**City of Keego Harbor**  
**TIFA Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2007**

|  | <b><u>Budgeted Amounts</u></b> |                     |                      | <b><u>Variance with</u></b> |
|--|--------------------------------|---------------------|----------------------|-----------------------------|
|  | <b><u>Original</u></b>         | <b><u>Final</u></b> | <b><u>Actual</u></b> | <b><u>Final Budget</u></b>  |
| Revenues:  |                                |                     |                      |                             |
| Property Taxes                                       | \$ 120,000                     | \$ 123,418          | \$ 123,418           | \$ -                        |
| Interest   | 10,000                         | 20,000              | 21,034               | 1,034                       |
| Total Revenues                                       | <u>130,000</u>                 | <u>143,418</u>      | <u>144,452</u>       | <u>1,034</u>                |
| Expenditures:  |                                |                     |                      |                             |
| Public Works   | 34,200                         | 34,470              | 4,460                | 30,010                      |
| Debt Service:  |                                |                     |                      |                             |
| Interest   | 19,520                         | 19,520              | 19,516               | 4                           |
| Total Expenditures                                   | <u>53,720</u>                  | <u>53,990</u>       | <u>23,976</u>        | <u>30,014</u>               |
| Excess (Deficiency) of<br>Revenues Over Expenditures | 76,280                         | 89,428              | 120,476              | 31,048                      |
| Other Financing Uses:                                |                                |                     |                      |                             |
| Operating Transfers Out                              | <u>(155,160)</u>               | <u>(55,885)</u>     | <u>(55,885)</u>      | <u>-</u>                    |
| Net Change in Fund Balance                           | (78,880)                       | 33,543              | 64,591               | 31,048                      |
| Fund Balance - July 1                                | <u>419,345</u>                 | <u>419,345</u>      | <u>419,345</u>       | <u>-</u>                    |
| Fund Balance - June 30                               | \$ <u>340,465</u>              | \$ <u>452,888</u>   | \$ <u>483,936</u>    | \$ <u>31,048</u>            |

OTHER SUPPLEMENTARY INFORMATION

City of Keego Harbor  
Nonmajor Governmental Funds  
Combining Balance Sheet  
June 30, 2007

|  | Special Revenue Funds |                |                                     |                 |
|--|-----------------------|----------------|-------------------------------------|-----------------|
|  | Local<br>Street       | Beautification | Police Dept.<br>Community<br>Events | Carillon        |
| <b><u>Assets</u></b>                       |                       |                |                                     |                 |
| Cash and Cash Equivalents                  | \$ 90,308             | \$ 442         | \$ 14,697                           | \$ 1,863        |
| Due from State                             | 7,141                 | -              | -                                   | -               |
| Due from Other Funds                       | 3,393                 | -              | -                                   | -               |
| Prepaid Expenditures                       | -                     | -              | -                                   | -               |
| Total Assets                               | \$ <u>100,842</u>     | \$ <u>442</u>  | \$ <u>14,697</u>                    | \$ <u>1,863</u> |
| <b><u>Liabilities and Fund Balance</u></b> |                       |                |                                     |                 |
| Liabilities:                               |                       |                |                                     |                 |
| Accounts Payable                           | \$ 41                 | \$ -           | \$ -                                | \$ -            |
| Accrued Liabilities                        | 327                   | -              | -                                   | -               |
| Total Liabilities                          | <u>368</u>            | <u>-</u>       | <u>-</u>                            | <u>-</u>        |
| Fund Balance:                              |                       |                |                                     |                 |
| Reserved for Debt                          | -                     | -              | -                                   | -               |
| Reserved for Prepaid Expenditures          | -                     | -              | -                                   | -               |
| Designated for Subsequent Years            |                       |                |                                     |                 |
| Expenditures                               | 32,300                | -              | -                                   | -               |
| Undesignated                               | 68,174                | 442            | 14,697                              | 1,863           |
| Total Fund Balance                         | <u>100,474</u>        | <u>442</u>     | <u>14,697</u>                       | <u>1,863</u>    |
| Total Liabilities and Fund Balance         | \$ <u>100,842</u>     | \$ <u>442</u>  | \$ <u>14,697</u>                    | \$ <u>1,863</u> |

| Debt Service Funds |             |                                   |                             |                   |
|--------------------|-------------|-----------------------------------|-----------------------------|-------------------|
| Fire<br>G.O. Bonds | TIFA Debt   | TIFA<br>City Hall/<br>Police Debt | Capital<br>Projects<br>Fund | Total             |
| \$ 53,664          | \$ -        | \$ -                              | \$ 193,124                  | \$ 354,098        |
| -                  | -           | -                                 | -                           | 7,141             |
| -                  | -           | -                                 | -                           | 3,393             |
| -                  | -           | -                                 | 24,635                      | 24,635            |
| <u>\$ 53,664</u>   | <u>\$ -</u> | <u>\$ -</u>                       | <u>\$ 217,759</u>           | <u>\$ 389,267</u> |
|                    |             |                                   |                             |                   |
| \$ -               | \$ -        | \$ -                              | \$ -                        | \$ 41             |
| -                  | -           | -                                 | -                           | 327               |
| -                  | -           | -                                 | -                           | 368               |
| 53,664             | -           | -                                 | -                           | 53,664            |
| -                  | -           | -                                 | 24,635                      | 24,635            |
| -                  | -           | -                                 | 60,380                      | 92,680            |
| -                  | -           | -                                 | 132,744                     | 217,920           |
| <u>53,664</u>      | <u>-</u>    | <u>-</u>                          | <u>217,759</u>              | <u>388,899</u>    |
| <u>\$ 53,664</u>   | <u>\$ -</u> | <u>\$ -</u>                       | <u>\$ 217,759</u>           | <u>\$ 389,267</u> |

City of Keego Harbor  
Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
For the Year Ended June 30, 2007

|  | Special Revenue Funds |                |                                     |          |
|--|-----------------------|----------------|-------------------------------------|----------|
|  | Local<br>Street       | Beautification | Police Dept.<br>Community<br>Events | Carillon |
| Revenues:  |                       |                |                                     |          |
| Property Taxes                                       | \$ -                  | \$ -           | \$ -                                | \$ -     |
| State  | 50,081                | -              | -                                   | -        |
| Interest   | 3,841                 | 1              | 7                                   | 1        |
| Other  | 3,849                 | 669            | 11,244                              | 5        |
| Total Revenues                                       | 57,771                | 670            | 11,251                              | 6        |
| Expenditures:  |                       |                |                                     |          |
| General Government                                   | -                     | -              | -                                   | -        |
| Public Works   | 100,128               | 1,890          | -                                   | -        |
| Community Events                                     | -                     | -              | 6,234                               | -        |
| Debt Service:  |                       |                |                                     |          |
| Principal  | -                     | -              | -                                   | -        |
| Interest and Fees                                    | -                     | -              | -                                   | -        |
| Capital Outlay                                       | 17,131                | -              | -                                   | -        |
| Total Expenditures                                   | 117,259               | 1,890          | 6,234                               | -        |
| Excess (Deficiency) of<br>Revenues Over Expenditures | (59,488)              | (1,220)        | 5,017                               | 6        |
| Other Financing Sources:                             |                       |                |                                     |          |
| Loan Proceeds  | -                     | -              | -                                   | -        |
| Operating Transfers In                               | 25,010                | 600            | -                                   | -        |
| Total Other Financing Sources                        | 25,010                | 600            | -                                   | -        |
| Net Change in Fund Balance                           | (34,478)              | (620)          | 5,017                               | 6        |
| Fund Balance - July 1                                | 134,952               | 1,062          | 9,680                               | 1,857    |
| Fund Balance - June 30                               | \$ 100,474            | \$ 442         | \$ 14,697                           | \$ 1,863 |

| Debt Service Funds |           |                                   |                             |            |
|--------------------|-----------|-----------------------------------|-----------------------------|------------|
| Fire<br>G.O. Bonds | TIFA Debt | TIFA<br>City Hall/<br>Police Debt | Capital<br>Projects<br>Fund | Total      |
| \$ 47,612          | \$ -      | \$ -                              | \$ -                        | \$ 47,612  |
| -                  | -         | -                                 | -                           | 50,081     |
| 1,568              | 1,649     | 288                               | 9,980                       | 17,335     |
| -                  | -         | -                                 | 30,216                      | 45,983     |
| 49,180             | 1,649     | 288                               | 40,196                      | 161,011    |
| -                  | -         | -                                 | 37,483                      | 37,483     |
| -                  | -         | -                                 | -                           | 102,018    |
| -                  | -         | -                                 | -                           | 6,234      |
| 40,000             | 45,000    | -                                 | 21,610                      | 106,610    |
| 9,242              | 58,155    | 53,454                            | -                           | 120,851    |
| -                  | -         | -                                 | 112,515                     | 129,646    |
| 49,242             | 103,155   | 53,454                            | 171,608                     | 502,842    |
| (62)               | (101,506) | (53,166)                          | (131,412)                   | (341,831)  |
| -                  | -         | -                                 | 78,845                      | 78,845     |
| -                  | 32,909    | 22,976                            | -                           | 81,495     |
| -                  | 32,909    | 22,976                            | 78,845                      | 160,340    |
| (62)               | (68,597)  | (30,190)                          | (52,567)                    | (181,491)  |
| 53,726             | 68,597    | 30,190                            | 270,326                     | 570,390    |
| \$ 53,664          | \$ -      | \$ -                              | \$ 217,759                  | \$ 388,899 |



# POST, SMYTHE, LUTZ and ZIEL

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September 10, 2007

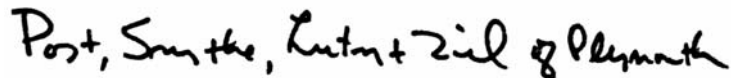
Honorable Mayor and City Council  
City of Keego Harbor  
Oakland County, Michigan

In planning and performing our audit of the City of Keego Harbor for the year ended June 30, 2007, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated August 2, 2007, on the financial statements of the City of Keego Harbor.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants

City Hall/Police Department Financing

During fiscal year 2006, the City issued TIFA bonds in the amount of \$995,000 and also an installment loan to finance the construction of a new city hall/police department facility. Typically, the bond covenants on municipal bond issues require that substantially all of the bond proceeds be spent within three years of issuance of the bonds. As the City has not yet begun construction of the new facility, we recommend that the City contact their bond counsel to ensure that the City will not be in violation of any bond covenants.